

**I. INTRODUCTION AND PURPOSE**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2 **CURRENT POSITION.**

3 A. My name is Laura A. Bateman and my business address is 411 Fayetteville  
4 Street, Raleigh, North Carolina. I am a Director of Rates and Regulatory  
5 Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf  
6 of Duke Energy Progress (“DE Progress” or the “Company”).

7 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. Yes, I did. I filed direct testimony and exhibits in this docket on November  
10 8, 2018. I filed supplemental direct testimony exhibits on January 18,  
11 2019.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to certain accounting  
14 and ratemaking adjustments proposed by the Office of Regulatory Staff  
15 (“ORS”), and to respond to the ORS’s recommendations with regards to  
16 deferred costs that would result in the Company not being able to fully  
17 recover its prudently incurred costs. ~~I also respond to several~~  
18 ~~recommendations by Nucor witnesses LaConte and Zarnikau related to the~~  
19 ~~Company’s revenue requirement.~~

1 Q. WHAT IS YOUR RESPONSE TO THE AMORTIZATION PERIOD  
2 LENGTHS PROPOSED BY ORS WITNESS PAYNE ~~AND NUCOR~~  
3 ~~WITNESS LACONTE?~~

4 A. The chart below shows the deferrals for which ~~either~~ ORS witness Payne  
5 ~~or Nucor witness LaConte~~  
6 recommends longer amortization periods than what the Company recommends.

Adj #	Adjustment	Deferred Balance (\$MM)	Length of Amortization in years		
		Company Position	Company Position	ORS Position	<del>Nucor Position</del>
SC -1700	Harris COLA	\$6.7	5	8	48
<del>SC -1700</del>	<del>Fukushima/CyberSecurity</del>	<del>\$5.5</del>	<del>5</del>	<del>5</del>	<del>38</del>
<del>SC -1800</del>	<del>Deferred Environmental Costs</del>	<del>\$46.5</del>	<del>5</del>	<del>5</del>	<del>20</del>
SC -1900	SC AMI (new meters)	\$1.6	3	15	
SC -3500	SC Grid	\$2.2	2	5	

7 While exact amortization periods are subjective, there needs to be a  
8 balance and consideration of both the impact on customer rates and the  
9 impact on the Company's cash flow. Given the deferred balances, the  
10 amortization periods proposed by ORS witness Payne ~~and especially those~~  
11 ~~proposed by Nucor witness LaConte~~ are excessive and unnecessarily long  
12 for these deferrals. In addition, I will point out that as in DEP's last rate  
13 case, the Company agreed to delay beginning the amortization on both the  
14 Harris COLA and Fukushima/Cyber Security deferred balances. In this  
15 case, the ORS recommends an 8-year amortization period for the Harris  
16 COLA costs because that is the length of time over which the costs were

**Adjustment #39 – Adjust for Nuclear Supplies and Materials**

**Adjustment**

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Henderson.

**III. RESPONSE TO NUCOR RECOMMENDATIONS**

***Excess Deferred Income Taxes ("Edit") Rider***

**Q. — DO YOU AGREE WITH NUCOR WITNESS LACONTE'S**

**PROPOSAL RELATED TO THE COMPANY'S PROPOSED EDIT RIDER.**

**A. — No. The Company has proposed to return excess deferred income taxes ("EDIT") and deferred revenue to customers in a manner that provides meaningful benefits to customers over a long period of time while preserving the Company's credit metrics. The table below summarizes the Company's proposal.**

	Deferred Amounts as of 12/31/2018	Proposed Amendment on Period
Protected EDIT	\$147 million	ARAM period
Unprotected property related EDIT	\$58 million	20 years
Unprotected non-property related EDIT	\$5 million	5 years
Deferred revenue, net of DERP Asset	\$2 million	5 years

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1 ~~Nucor witness LaConte recommends shortening the amortization period for the~~  
2 ~~property-related unprotected EDIT from 20 years to 5 years and also~~  
3 ~~proposes shortening the amortization period for the deferred revenue from~~  
4 ~~5 years to 2 years, claiming that the periods proposed by the Company are~~  
5 ~~unnecessarily long. This is not true. Company witness Sullivan, in his~~  
6 ~~direct testimony, discusses credit rating agency action resulting from the~~  
7 ~~federal Tax Cuts and Jobs Act ("TCJA") and the importance of~~  
8 ~~constructive regulatory orders on this issue in preserving the Company's~~  
9 ~~credit ratings. This Commission has acted constructively both in its April~~  
10 ~~25, 2018 order in Docket 2017-381-A and in its December 21, 2018 order~~  
11 ~~in Dockets 2017-207-E, 2017-305-E, and 2017-370-E. In the December~~  
12 ~~21, 2018 order, the Commission authorized South Carolina Electric & Gas~~  
13 ~~to return property-related unprotected EDIT over a similar period as what~~  
14 ~~DE Progress is proposing in this case. The Company believes the~~  
15 ~~Commission should continue its constructive treatment of this issue in the~~  
16 ~~current case and reject Nucor witness LaConte's recommendation.~~  
17 ~~Company witnesses Sullivan and Panizza respond further to Nucor~~  
18 ~~witness LaConte's recommendation related to the EDIT rider.~~

19 ~~**Q. PLEASE DESCRIBE NUCOR WITNESS LACONTE'S**~~  
20 ~~**RECOMMENDATION CONCERNING THE DISTRIBUTED**~~  
21 ~~**ENERGY RESOURCES PROGRAM ("DERP") BALANCE.**~~

22 ~~**A. Witness LaConte recommends removing the DERP balance from the**~~  
23 ~~**EDIT rider. To clarify, the Company is not requesting recovery of the**~~

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1        ~~DERP regulatory asset through the EDIT rider, but instead is requesting~~  
2        ~~that the Commission approve the use of a portion of the deferred revenue~~  
3        ~~benefit to offset the DERP regulatory asset or deferred costs, and then the~~  
4        ~~Company would flow the remaining deferred revenue back to customers~~  
5        ~~through the EDIT rider.~~

6        ~~Witness LaConte also raises legal questions about the Company's~~  
7        ~~proposal. I'm not a lawyer, but it is my understanding that we are not~~  
8        ~~violating any legal requirement or settlement in our proposal. We are not~~  
9        ~~asking for any recovery of DERP costs through the EDIT rider. We are,~~  
10       ~~however, asking to use a portion of the benefits from the TCJA to offset~~  
11       ~~deferred DERP costs. The Commission required us to address the TCJA~~  
12       ~~in this case, which we are doing, and in addressing the TCJA, we have~~  
13       ~~made this proposal.~~

14       **~~Q. — DO YOU THINK IT IS REASONABLE FROM A RATEMAKING~~**  
15       **~~PERSPECTIVE FOR A COMMISSION TO ALLOW A UTILITY TO~~**  
16       **~~USE BENEFITS FROM THE TCJA TO OFFSET REGULATORY~~**  
17       **~~ASSETS/DEFERRED COSTS?~~**

18       **~~A. — Yes. In fact, in his direct testimony, Company witness Sullivan describes~~**  
19       ~~two examples of just that. In Alabama, the commission allowed Alabama~~  
20       ~~Power to use a portion of the TCJA benefits to offset deferred fuel costs.~~  
21       ~~In Florida, the commission allowed Duke Energy Florida to use a portion~~  
22       ~~of the TCJA benefits to offset deferred costs related to Hurricane Irma. In~~  
23       ~~my opinion, it is a reasonable approach to use a portion of the benefits~~

1                   ~~from the Tax Act to offset deferred costs, which customers would~~  
2                   ~~otherwise have to pay in the future.~~

*Post-Test Year Plant Adjustment*

Q. DO YOU AGREE WITH NUCOR WITNESS LACONTE'S RECOMMENDATION REGARDING THE POST-TEST YEAR ADDITIONS TO PLANT-IN-SERVICE ADJUSTMENT?

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A. No, I do not. Witness LaConte recommends that the Commission not allow DEP to include its post test year additions adjustment. Inclusion of this adjustment in a base rate proceeding has been a long-standing practice in South Carolina. This adjustment has been included in every investor owned electric utility rate case as far back as 1988. DEP has included this adjustment in its last two rate cases (1988 and 2016),<sup>3</sup> DEC has included the adjustment in its last four rate cases (1991, 2009, 2011 and 2013)<sup>4</sup> and SCE&G has included the adjustment in both its 2004 and 2007 rate cases.<sup>5</sup> What Witness LaConte is recommending would be a deviation from what has been the general practice in electric utility rate cases in South Carolina for at least the past thirty years.

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In her testimony, Witness LaConte states that, "the utility is generally free to choose the test year it wants." My understanding is that this is not the case in South Carolina and instead utilities must use a historic test year (26 S.C. Code Regs. 103-823) and are not allowed to use a future test period. She also says the post test year adjustment should not be allowed due to what she calls the "Matching Principle." In principle, the test year costs used to

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<sup>3</sup>See Dockets 88-11-E and 2016-227-E

<sup>4</sup>See Dockets 91-216-E, 2009-226-E, 2011-271-E and 2013-59-E

<sup>5</sup>See Dockets 2004-178-E and 2007-229-E

1 establish rates should approximate the costs the utility will experience  
2 once those new rates are effective. Instead of using a future test period, the  
3 South Carolina method of using a historic test period with an adjustment  
4 for post test year plant additions reasonably approximates the rate base  
5 level for the period when new rates are effective. For example, the rate  
6 base in DEP's 2016 rate case was \$1.3 billion. New rates were effective  
7 starting January 1, 2017. The actual per books rate base in the quarterly  
8 report filed with this Commission in Docket 2006-270-E for the twelve  
9 months ended June 30, 2017, just 6 months after new rates were effective,  
10 was \$1.4 billion. As a result, South Carolina's historic practice of allowing  
11 updates for post test year plant additions has generally had the effect of  
12 providing electric utilities an opportunity to earn their allowed return on  
13 rate base levels after new rates go into effect. Therefore, the Commission  
14 should reject Witness LaConte's recommendation on this issue.

15 *Coal Ash Deferral*

16 Q. DO YOU AGREE WITH NUCOR WITNESS LACONTE'S RECOMMENDED  
17 REDUCTION IN THE COAL ASH DEFERRED ASSET?

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18 A. No, I do not. In the calculation of the deferred balance, the Company  
19 included actual amounts spent or plant placed in service through  
20 December 2018. Witness LaConte recommends that the deferred balance  
21 only include amounts spent through December 2017. This is not  
22 reasonable. The amounts spent or placed in service in 2018 are known and  
23 measurable and used and useful and there is no reason to delay the

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1 recovery of these costs. If the Commission were to delay the recovery, the  
 2 2018 costs, approximately \$22.5 million, plus carrying costs, would need  
 3 to be recovered in the next case. The Company has already voluntarily  
 4 removed approximately \$153 million of deferred storm costs from this  
 5 proceeding to pursue alternative cost recovery options. To require the  
 6 Company to also exclude the 2018 coal ash amounts denies the Company  
 7 timely recovery of prudently incurred, known and measurable costs, and  
 8 compounds the increase that will be required from customers in the next  
 9 rate case.

10 *Department of Energy ("DOE") Litigation*

11 ~~Q. DO YOU AGREE WITH WITNESS ZARNIKAU'S~~  
 12 ~~RECOMMENDATION REGARDING THE TREATMENT OF~~  
 13 ~~CLAIMS REIMBURSEMENTS THE COMPANY HAS RECEIVED~~  
 14 ~~FROM THE FEDERAL DOE FOR COSTS INCURRED TO STORE~~  
 15 ~~NUCLEAR SPENT FUEL?~~

16 ~~A. No, I do not. As Witness Zarnikau notes, the claims reimbursements that~~  
 17 ~~the Company has received do not represent a return of the payments DEP~~  
 18 ~~made to the DOE to fund a national spent nuclear waste disposal site.~~  
 19 ~~Instead, the Company has incurred costs to store spent nuclear fuel~~  
 20 ~~because of the DOE's failure to accept spent nuclear fuel. The types of~~  
 21 ~~costs the Company has incurred include the construction of Independent~~  
 22 ~~Spent Fuel Storage Installations, the purchase of concrete bunkers and~~  
 23 ~~cannisters to house the spent fuel, and the costs of transporting the spent~~

1 ~~fuel to the storage facilities. These costs have been appropriately~~  
2 ~~accounted for as capital or O&M costs. As the reimbursements were~~  
3 ~~received they were credited to the appropriate capital or O&M accounts to~~  
4 ~~offset the original costs incurred.~~

5 ~~**Q. HAVE ANY OF THE O&M COSTS FROM ANY OF THE CLAIM**~~  
6 ~~**PERIODS BEEN INCLUDED IN CUSTOMER RATES?**~~

7 ~~**A.** No. The reimbursements that the Company has received to date are for~~  
8 ~~spent fuel storage costs incurred from 1998-2013. The Company did not~~  
9 ~~file a general rate case during that time period nor have any of those years~~  
10 ~~been used as a test year in a general rate case filing. The Company instead~~  
11 ~~absorbed those costs without any change in customer rates. The Company~~  
12 ~~has appropriately recorded the reimbursements for O&M costs incurred to~~  
13 ~~same O&M accounts. Requiring the Company to instead flow these~~  
14 ~~historical reimbursements back to customers would allow customers to~~  
15 ~~receive a reimbursement for a cost that they never paid.~~

16 ~~**Q. HAVE ANY OF THE CAPITAL COSTS FROM ANY OF THE**~~  
17 ~~**CLAIM PERIODS BEEN INCLUDED IN CUSTOMER RATES?**~~

18 ~~**A.** Yes. Capital costs become part of rate base. Rate base is included in the~~  
19 ~~calculation of the revenue requirement in a general rate case. Likewise, the~~  
20 ~~reimbursements for the capital costs incurred have been credited to rate~~  
21 ~~base and become part of that revenue requirement. It is important to treat~~  
22 ~~both the costs and the reimbursements the same way for ratemaking.~~  
23 ~~While there is a timing difference between the time the costs are incurred~~

1 ~~and the time the reimbursements are received, once the reimbursements~~  
2 ~~are received and credited to rate base, customers are no longer paying~~  
3 ~~anything for those capital investments because the costs have been~~  
4 ~~reimbursed by the federal government. Requiring the Company to instead~~  
5 ~~flow these reimbursements for capital costs back to customers~~  
6 ~~immediately would create customer inequities: today's customers would~~  
7 ~~get a reimbursement for a cost they have not paid, and future customers~~  
8 ~~would pay a cost that has been reimbursed by the federal government but~~  
9 ~~that reimbursement has been given to prior customers in the past.~~

10 **~~Q. IS THE COMPANY'S CURRENT TREATMENT OF THE CLAIMS~~**  
11 **~~REIMBURSEMENTS RECEIVED FROM THE FEDERAL~~**  
12 **~~GOVERNMENT APPROPRIATE RATEMAKING?~~**

13 **~~A.~~** ~~Yes. As I stated previously, the claims reimbursements are not related to~~  
14 ~~the payments made to the DOE over many years to fund a spent nuclear~~  
15 ~~waste disposal site. The claims reimbursements are instead related to costs~~  
16 ~~the Company has incurred and continues to incur to store spent nuclear~~  
17 ~~fuel. The Company accounts for the costs and the reimbursements in~~  
18 ~~accordance with FERC chart of accounts guidelines and appropriate~~  
19 ~~ratemaking principles.~~

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 **A.** Yes.